



State of Wisconsin • DEPARTMENT OF REVENUE

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Scott Walker
Governor

Richard G. Chandler
Secretary of Revenue

February 9, 2012

Testimony in Support of Assembly Bill 535, relating to: exception to local levy limits for the Village of Warrens.

As the Department of Revenue (DOR) has discussed with the Assembly Committee on Ways and Means last year, the equalization process is a complex and involved activity that requires each of the state's 1,851 municipalities and DOR to interact and exchange data.

Per DOR's previous testimony on this issue, the Department has taken several proactive steps this year with the new Integrated Property Assessment System (IPAS), which will modernize and streamline the equalization process by consolidating several outdated mainframe systems and reducing opportunities for human error. IPAS will also allow local assessors the ability to directly enter assessment data into IPAS instead of relying on manual entry by DOR multiple times. IPAS continues to increase in functionality, and DOR plans to provide local municipalities with preliminary equalized values, beginning in 2012, approximately two weeks before the August 15 statutory deadline for publication. This will enable municipalities and DOR to review and correct equalization errors prior to the value's final publication.

Unfortunately, many of the advantages of IPAS were not yet available in 2011, and entering changes in a municipality's level of assessment was still a task that required manual input by DOR employees. In 2011, DOR inadvertently did not include this manual adjustment for the Village of Warrens, which resulted in value of Warrens TIF District #1 to be undervalued by approximately \$4.7 million.

When a TIF District is undervalued, the effect is that the municipality's "TIF-Out" value is overstated. That results in the municipality bearing a greater share of the tax burden for the school district, county, and technical college district, which all rely on TIF-Out values.

However, in Warrens' case, the Village represents a very small portion of the equalized values for the taxing jurisdictions of which it is part.

- Monroe County: Less than 1% of the total equalized value.
- School District of Tomah: Less than 2% of the total equalized value.
- Western Wisconsin Technical College District: Well below 1% of the total equalized value.

The impact of the error in Warrens' TIF District #1 valuation had a negligible effect on the other taxing jurisdictions since it represents such a small share of the broader equalized value base.

At the municipal level, the impact of this error actually provided minor property tax relief in 2011 to the residents of Warrens since the equalization base of the Village outside of the TID was artificially larger as a result of the error. However, next year, when the statutory corrections process takes place, Village of Warrens residents will see an increase in local property taxes (which will not be similarly experienced by other municipalities in Monroe County, the Tomah School District, and the technical college district).

Assembly Bill 535 provides Warrens with a tool to mitigate the coming property tax increase necessary to correct the 2011 error by allowing the Village to lower its 2012 levy. Then, in

2013, Assembly Bill 535 will allow Warrens to return its municipal levy back to the amount it otherwise would have been.

This bill is a parallel to 2011 Wisconsin Act 63, which provided similar flexibility to the Village of Shorewood. Act 63 passed both houses of the Legislature unanimously. As the Committee will recall, Act 63 was a response to an error caused by Shorewood and not the result of any error caused by the Department of Revenue.

The Committee may naturally be reminded also of 2011 Wisconsin Act 64, which expanded the loan program to assist municipalities overvalued by DOR, as occurred in Twin Lakes in 2011. However, that situation is somewhat the reverse of the Warrens situation, and the loan program does not apply. And unlike Twin Lakes, which would have otherwise seen an unnatural increase in property taxes in 2011, Warrens residents actually experienced small property tax relief in 2011 as a result of the error. Thus a loan would not have provided relief to Warrens taxpayers since no increase was experienced in 2011.

DOR takes its duty to perform the equalization process seriously, and the Department regrets the error caused in the Village of Warrens. DOR supports Assembly Bill 535 because it will provide Warrens a tool to mitigate the anticipated property tax increase in 2012 that was set in motion by DOR's equalization error.

Going forward, as discussed earlier in my testimony, DOR plans to provide preliminary values in the future prior to the final values' publication, which will allow both municipalities and the Department the ability to review the data and correct errors.

Specifically in regard to errors like those experienced in Warrens, IPAS functionality for automatic (as opposed to manual) recalculation of the level of assessment ratio is now online and will be in place for 2012. Thus, future errors like that experienced in Warrens' case in 2011 will no longer occur since human error related to manual entry is now replaced by automatic recalculation.



State of Wisconsin • DEPARTMENT OF REVENUE

DIVISION OF STATE AND LOCAL FINANCE • BUREAU OF PROPERTY TAX • EQUALIZATION SECTION • PROPERTY ASSESSMENT OFFICE-EAU CLAIRE DISTRICT • EAU CLAIRE, WI

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September 21, 2011

Jolene Rhea, Clerk
Village of Warrens
P.O. Box 97
Warrens, WI 54666

Dear Ms. Rhea,

This letter is to inform you of an error in the 2011 Tax Increment District (TID) value for TID #1 in the Village of Warrens, Monroe County, and to identify the correction process. The assessor submitted an estimated total assessed value of \$55,117,000 for TID #1 on June 9, 2011. We adjusted the TID assessment by the estimated 2011 level of assessment of 109.64% in order to determine the full value of the TID. The level of assessment was an estimate since the Village had not completed the 2011 assessments at the time of the calculation.

During our 2011 sales analysis, an economic decrease was applied to the Village that reflected the 2010 sales of *The Three Bears Lodge* and *Cranberry Express*. The ratio of 109.64% was automatically generated by dividing the 2010 Statement of Assessments by the 2011 economic adjusted Equalized Value. This ratio was applied to determine the 2011 value for TID #1 of \$50,270,900.

Because the ratio of 109.64% does not reflect the lower 2011 assessed value reported in the TID, the result was an understatement of the TID value for 2011. A recalculated ratio of 100.25% should have been applied to reflect the change in the TID's 2011 assessed value. The correct 2011 calculation is: $\$55,117,000 / 100.25\% = \$54,979,600$.

The correction process is identified in sec.70.57, Wis. Stats., and will be used in 2012 to adjust for the understatement of value in 2011. Specifically, the 2012 increment value will be adjusted by +\$4,708,700 for the under valuation that occurred in 2011. This adjustment ensures that taxpayers are made whole since the 2011 apportionment values were based upon the incorrect 2011 Increment Value of TID #1. Please note that the reported 2011 assessed value for the TID was an **estimate** and may change the amount of the compensation when the **final** TID report is submitted.

Feel free to contact me with additional questions or concerns.

Sincerely,

Jeanne Pendl
Property Assessment Specialist
Western District Equalization Office
608-526-4430
Jeanne.pendl@revenue.wi.gov

1/24/2012		MILL RATE WORKSHEET	
** Leaving everything as is			
Tax Year 2013		Municipality Number 185	Name: VILLAGE OF WARRENS
Aggregate ration (Provided by the state): 1.002529011			
Taxing Jurisdiction	Total \$ Amount to be raised on Real Estate & Personal Property		Mill rate (per thousand)
1. State	10,756.69		0.17
2. County	686,426.61	Real Estate Value	10.8
3. Local	2,259,230.87	Personal Property Value RE& PP	35.55
4. School District #5747	955,465.47	1,102,000 63,544,400	15.04
School District Value Totals			
5. Vocational School	238,536.49		3.75
6. Utility District #1	57,590.00	45,393,700.00	1.27
7. Utility District #2	133,782.00	30,778,300.00	4.35
TOTAL AMOUNT TO BE RAISED	4,341,788.13		-0.43
8. School Levy Tax Credit	27,111.08		
NET TAX	4,314,677.05		
		Base Rate	64.88
		Util #1	66.15
		Util #2	70.5

1/24/2012									
**No Village levy		TAX INCREMENT CALCULATIONS							
County/Municipal Code 41185						Equalized TID Value Increment(s):			
Municipality Name VILLAGE OF WARREN, For 2012 Taxes Payable 2013						51,531,500			
		A	B	C	D	E	F		
TAXING JURISDICTION Apportioned Levy ÷ Equalized Value		= Interim Rate X Equalized Value		= Amount to E-A=					
		(less TID value increment)		(with TID value increment)		be levied Tax Increment			
1. County		128,360.21	11,852,700	0.010829617	63,384,200	686,426.61	558,066.40		
2. Special District (metro, sanitary, lake)									
3. Tax District 185 (city, village)		0.00	11,852,700	0.035643439	63,384,200	0.00	0.00		
4. School District(s) 5747		178,669.86	11,852,700	0.01507419	63,384,200	955,465.47	776,795.61		
5. Technical College District(s) 0200		44,605.78	11,852,700	0.003763343	63,384,200	238,536.49	193,930.71		
		351,635.85				1,880,428.57	1,528,792.72		
6. TOTAL FOR TAX INCREMENT									
This sheet is an estimate of 2012 eliminating the Village & Utility district levy's. This will not be 100% accurate but will give a good picture of what is going to happen.									

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Taxing Jurisdiction	Total \$ Amount to be raised on Real Estate & Personal Property			Mill rate (per thousand)	
1. State	10,756.69			0.17	
2. County	686,426.61	Real Estate Value	Personal Property Value	RE& PP	10.8
3. Local	0.00	62,442,400	1,102,000	63,544,400	
4. School District #5747	955,465.47			15.04	
School District Value Totals					
5. Vocational School	238,536.49				3.75
6. Utility District #1	0.00	45,393,700.00			
7. Utility District #2	0.00	30,778,300.00			
TOTAL AMOUNT TO BE RAISED	1,891,185.26				
8. School Levy Tax Credit	27,111.08				-0.43
NET TAX	4,314,677.05				
				Base Rate	29.33
				Util #1	29.33
				Util #2	29.33

Village of Warrens -- Error in 2011 TIF Value

Background

As indicated in the table below, an error occurred in the 2011 tax increment value of the Village of Warrens. The error occurred in a TIF district that has been declared as "severely distressed". As a result of the "severely distressed" designation, the maximum lifespan of this TIF district has been extended from 27 to 40 years.

The error understated the 2011 TIF value by approximately \$4.7 million.

Effect on 2011 Equalized Value -- Village total				
	Current	Corrected	Difference	
Value for 2011 - TIF In	63,384,200	63,384,200	0	
Value for 2011 - TIF Out	21,270,100	16,561,400	4,708,700	
Value for 2011 - TIF Increment	42,114,100	46,822,800	4,708,700	

Under the normal correction process under s.70.57, this error will be corrected next year by overstating the TIF increment value by the amount of 2011 understatement.

When this correction occurs in 2012, the tax increment collected will be abnormally high (to correct for the erroneously low TIF value in 2011). In addition, the TIF out value of the village for 2012 will be abnormally low.

The abnormally low TIF out value for the village during the year of the correction may force the village's mill rate up substantially. (Assuming all values remain stagnant at the correct 2011 levels, the correction will push the TIF-out value down by \$4,708,700 -- thereby reducing the TIF-out value from its "correct" value of \$16.6 million to \$11.9 million during the year of the adjustment.)

While the error in the 2011 valuation may reduce the average tax bill in the village (by overstating the village's TIF-out tax base and reducing the tax increment), the correction in 2012 may substantially increase tax bills (by creating - as a one-year corrective measure, an abnormally high tax increment and an abnormally high village mill rate.

Option

Create a non-statutory provision to provide the village with flexibility to limit the impact of the correction to the 2011 error that will occur in the 2012 values:

Notwithstanding existing definitions of TIF project costs and allowable uses of tax increments, allow the Village of Warrens' general fund or other fund as determined by the village, for purposes of determining and executing the village's budget for 2013 (supported in part by property taxes levied in December 2012 based on 2012 valuations), to receive a loan in or before 2013 from the tax increments generated by the village's TIF district. Allow the village to determine the amount of the loan and whether or not

Village of Warrens -- Error in 2011 TIF Value

interest on the loan will be required. Require the loan to be repaid to the TIF district over a period of up to five years. Exempt from the levy limits any amounts that the village levies for the repayment of loan to the village's TIF fund.

Analysis

While DOR does not have knowledge of the amounts that will be levied by the Village of Warrens or any of its overlying jurisdictions, based on DOR's estimates, if no error had occurred, the gross tax on the average home in the village (including the levies of all overlying jurisdictions but prior to the school levy, lottery, and first dollar credits) would have been expected to be about \$2,750 in December 2011.

Below are DOR's projections for the tax on the average home showing how the loan option above may smooth out the impact of the correction process:

- \$2,750 = "normal" gross tax if no error occurred.
- \$2,378 = Dec 11 tax (low due to low tax increment and high TIF-out value)
- \$3,414 = Dec 12 tax under normal correction process and no offsetting action (high tax due to high tax increment and low TIF-out value)
- \$2,591 = Dec 12 tax if \$150,000 loan used to reduce village levy for 2013 budget (while normal valuation correction process proceeds as normal)

Thus, by using the loan option, the average home's tax bill can gradually return to normal levels and the "bump" that would occur during the correction year can be avoided.

Year-by-year, the gross tax on the average home would be:

Dec 11 -- \$2,378 -- lower than the "normal" amount

Dec 12 -- \$2,591 -- gradually returning to "normal" amount (and avoiding the bump to \$3,414)

Dec 13 -- \$2,750 -- back to the "normal" amount

Comments

- While this loan process may create a precedent in temporary use of tax increments, this is only being permitted for the Village of Warrens and is merited by the fiscal challenges that the village and the village TIF district are confronting.
- The extension of the maximum lifespan of the TIF district (due to the designation as severely distressed) may allow the village to use this option as an additional 13 years have been granted for the village to pay off the TIF district's costs.
- DOR does not have specific information to know the accuracy of the assumptions employed in the estimates above or the degree to which the option outlined above is feasible for either the village or the village's TIF district.

Prepared by:

Paul Ziegler

Division of Research and Policy

Department of Revenue

October 24, 2011

February 8, 2012

To whom it may concern:

Three Bears Lodge just reopened in June 2010. We are a family owned and operating business in Warrens, Wisconsin. As of 2011, Three Bears Lodge provides employment to the equivalent of 71 full time people.

As in any other startup phase, cash flows are tight, but we are making progress.

Any increase in property taxes would have a significant negative effect on our success.

We, as the Dippen family, urge you to support bill # 60.0602(3).

Sincerely,



Robert M. Dippen

